

Commonwealth of Virginia Executive Branch Strategic Planning, Service Area Planning, and Performance-Based Budgeting

An overview for senior agency staff

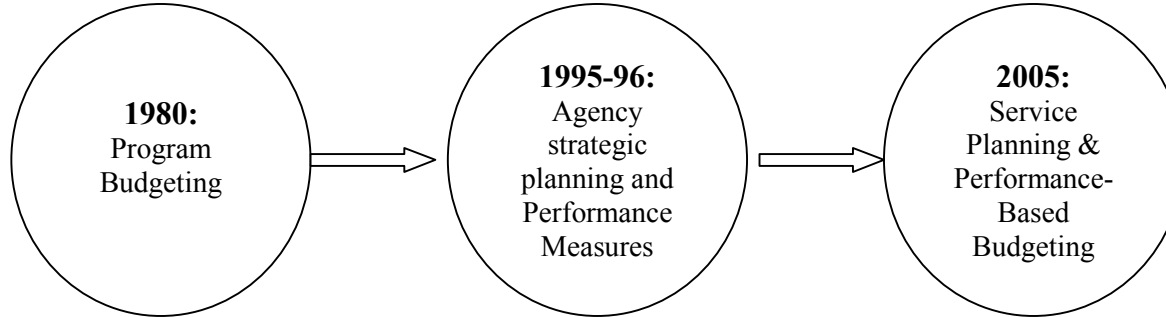
April, 2005



**Office of the Secretary of Finance
Department of Planning and Budget**

Introduction and History

Virginia's budgeting system is evolving



Current State

CHALLENGES

- ♦ Variation – expectations, planning language, metrics, plan formats...
- ♦ Outcomes not precisely defined
- ♦ Multiple planning/reporting requirements and calendars
- ♦ Little or no formal assistance or training for effective performance management

*Management Scorecard
Executive Agreements
Leadership Communiqué*

*DPB Planning & Budget
IT Planning
Workforce Planning
Capital Planning*

*Various Improvement
(Efficiency) Efforts*

*Outsourcing Legislation
Competition Council*

*Virginia Results
Virginia Excels
Budget Document & Bill*

NEW REQUIREMENTS
*Strategic Planning
Performance-based
Budgeting
Revised Service Structure*

Results

Performance management Activities are primarily:

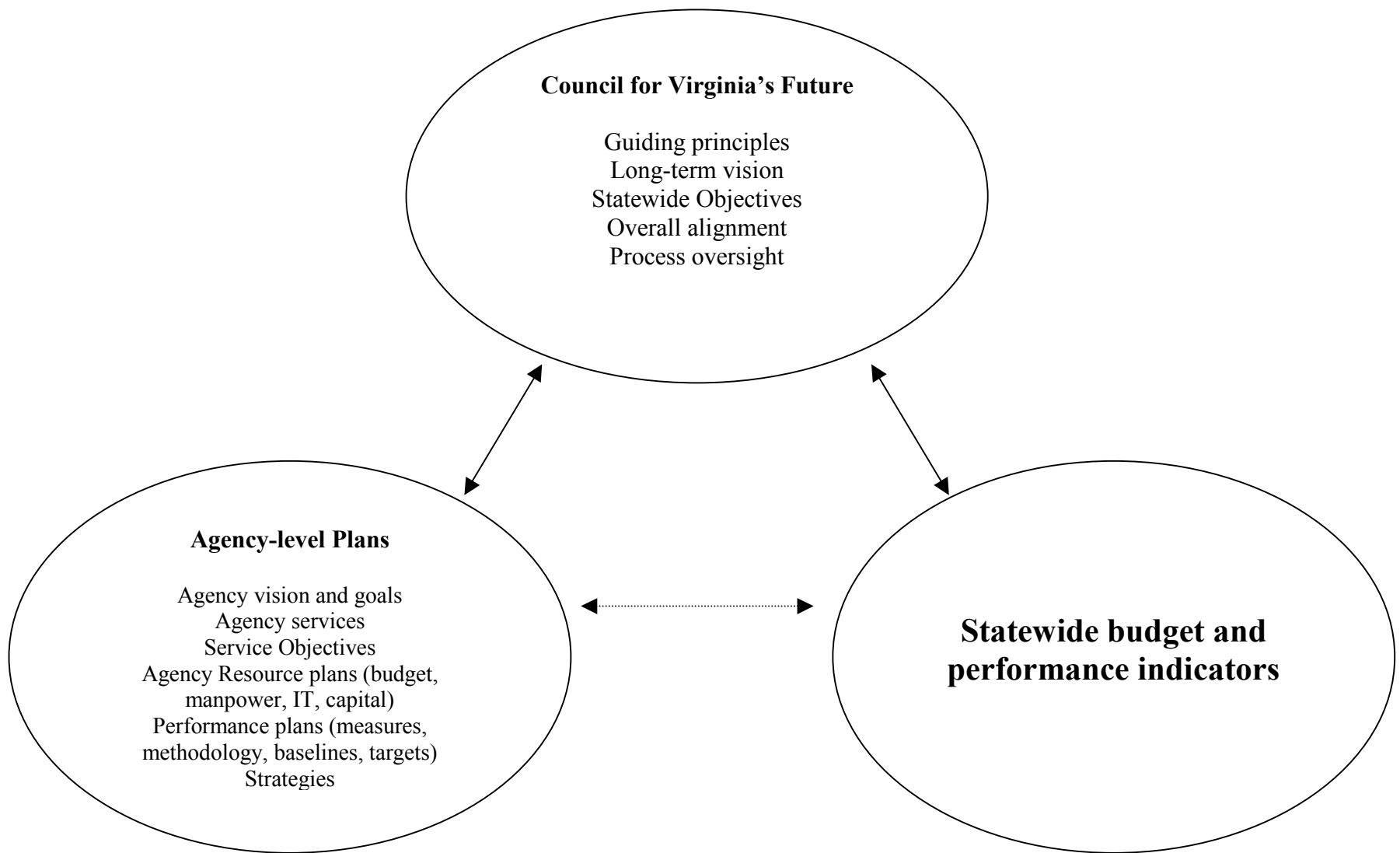
- ♦ administrative in nature
- ♦ targeted to stand-alone reporting requirements
- ♦ not integrated to support enhanced performance.

Introduction and History

The Council for Virginia's Future

Impaneled by Code of Virginia 2.2-2684 to advise the Governor and the General Assembly on the implementation of the Roadmap for Virginia's Future process, which is:

- (i) developing a set of guiding principles that are reflective of public sentiment and relevant to critical decision-making;
- (ii) establishing a long-term vision for the Commonwealth;
- (iii) conducting a situation analysis of core state service categories;
- (iv) setting long-term objectives for state services;
- (v) aligning state services to the long-term objectives;
- (vi) instituting a planning and performance management system consisting of strategic planning, performance measurement, program evaluation, and performance budgeting; and
- (vii) performing plan adjustments based on public input and evaluation of the results of the Roadmap.



Why Change?

A Mandate for Change

HB2097(03) (*affecting §2.2-2681 - 2.2-2687*)
"...each agency shall develop and maintain a strategic plan for its operations" defined in the legislation as "the systematic clarification and documentation of what a state agency wishes to achieve and how to achieve it. The objective of strategic planning is a set of goals, actions steps, and measurements constructed to guide performance."

HB1838(03) (*affecting §2.2-1508*)
The Executive Budget Document is to include a statement of "major goals, objectives, and specific outcomes related to expenditures for programs" in each agency.

Compelling Reasons for Change

- ◆ Good 'business'
- ◆ Sets the stage for significant, positive changes in societal outcomes
- ◆ Continuation of improvement efforts
- ◆ Right timing (Opportunity to leave a legacy)
- ◆ Establishes a system that can transcend administrations

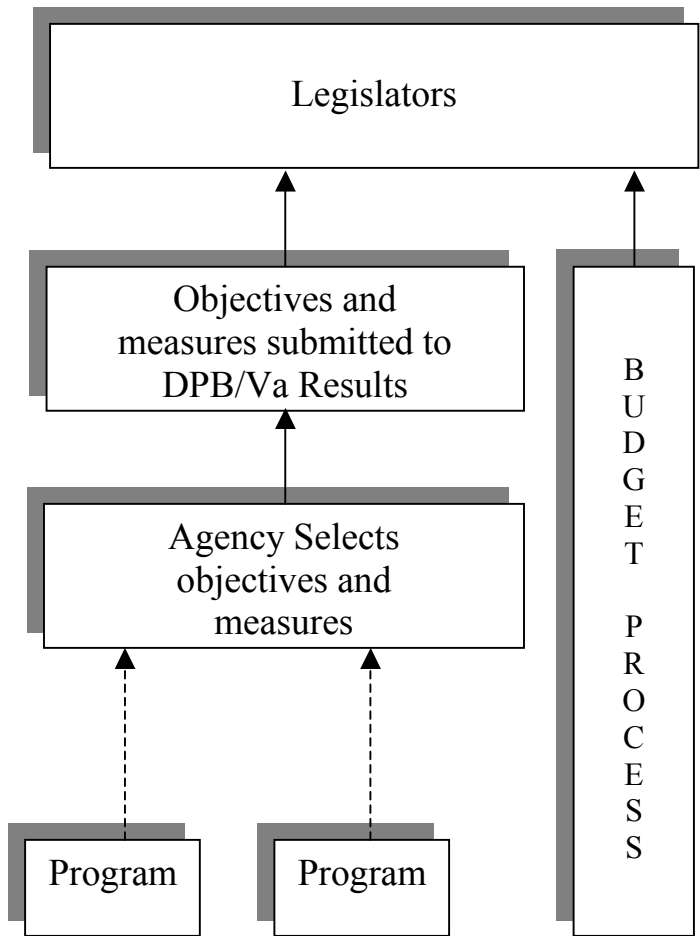
Input received from many sources

- Council on Virginia's Future
- Governor's office
- Money committee staffs
- Auditor of Public Accounts
- Advisory group of state employees from every secretariat
- Agency heads from every secretariat (Performance Leadership Steering Group)
- Budget analysts

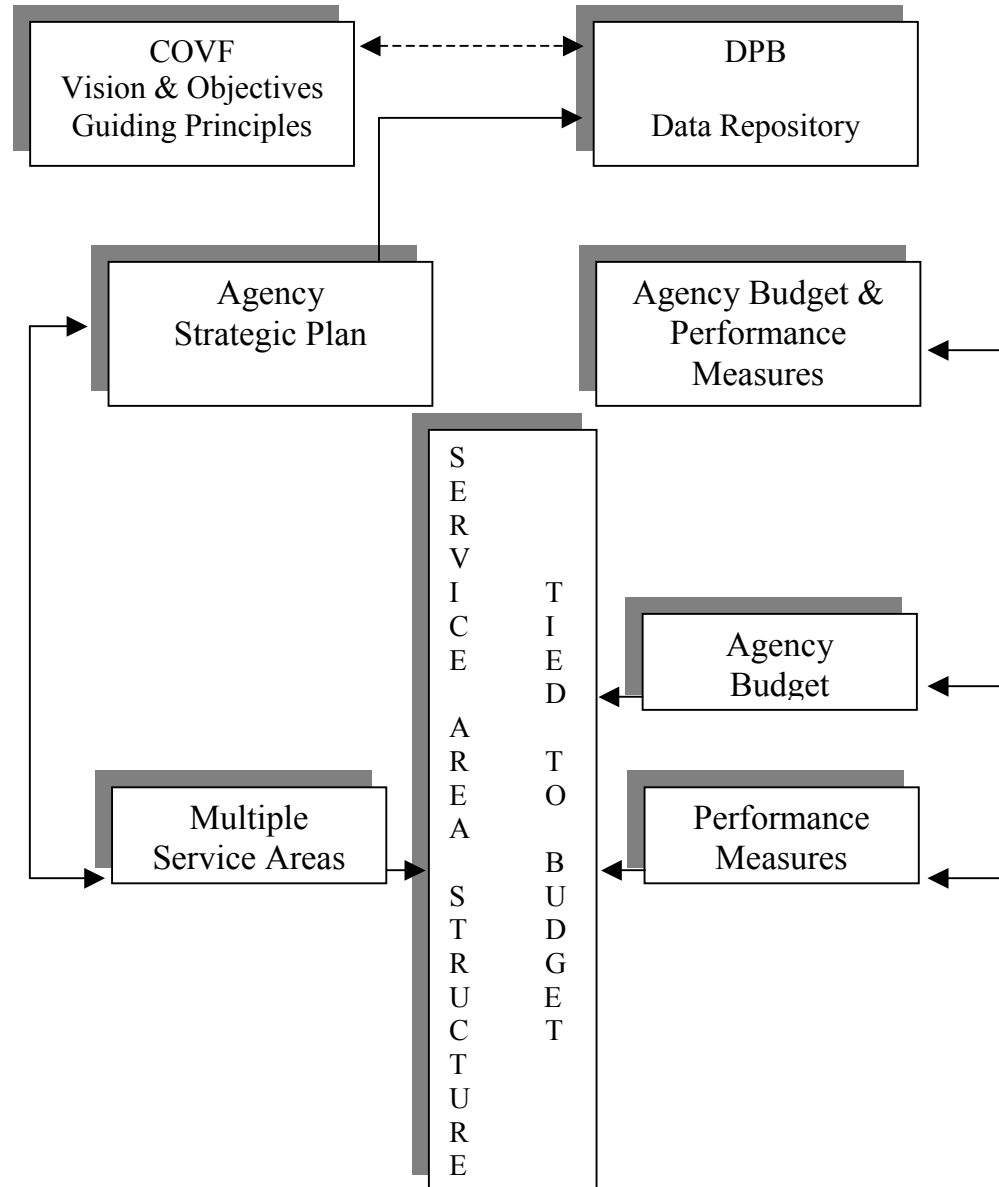
Process Design – Service Area Structure

DPB has worked with each agency to rationally match current budget programs/subprograms and planning activities to form a common service area structure. Each service area forms the basic unit of budgeting and of planning. DPB has distributed copies of new service area structure to each agency's chief budget officer, along with a crosswalk from the current program structure to the new system. Feedback has been solicited and incorporated.

Current



New



Process Design – Strategic Plan

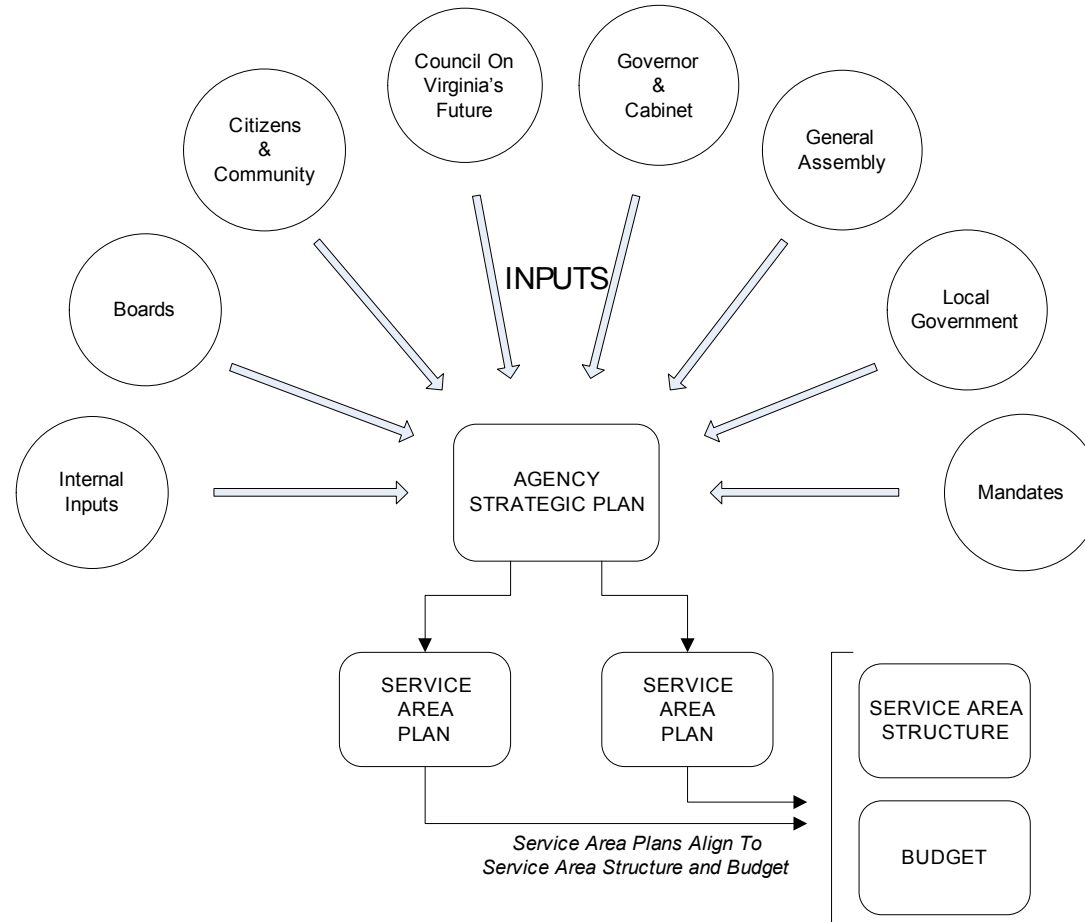
Service area structure is key

- Generally, “service areas” are what agencies do for the citizen or for other agencies
- They consist of allocations of resources toward a specific objective
- Each service area forms the basic unit of both budgeting and of planning

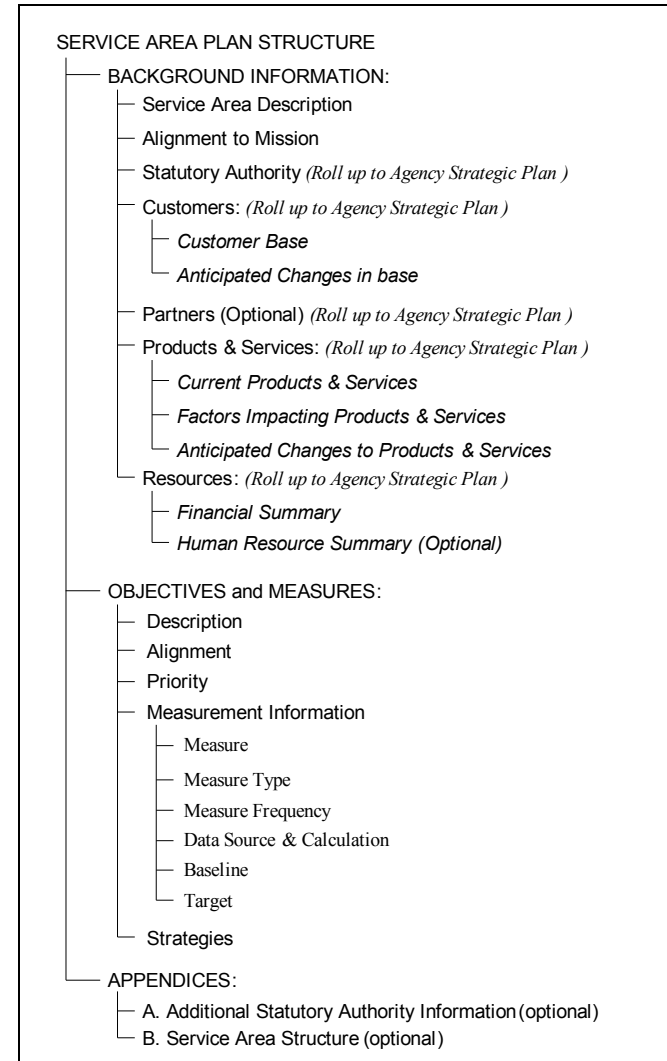
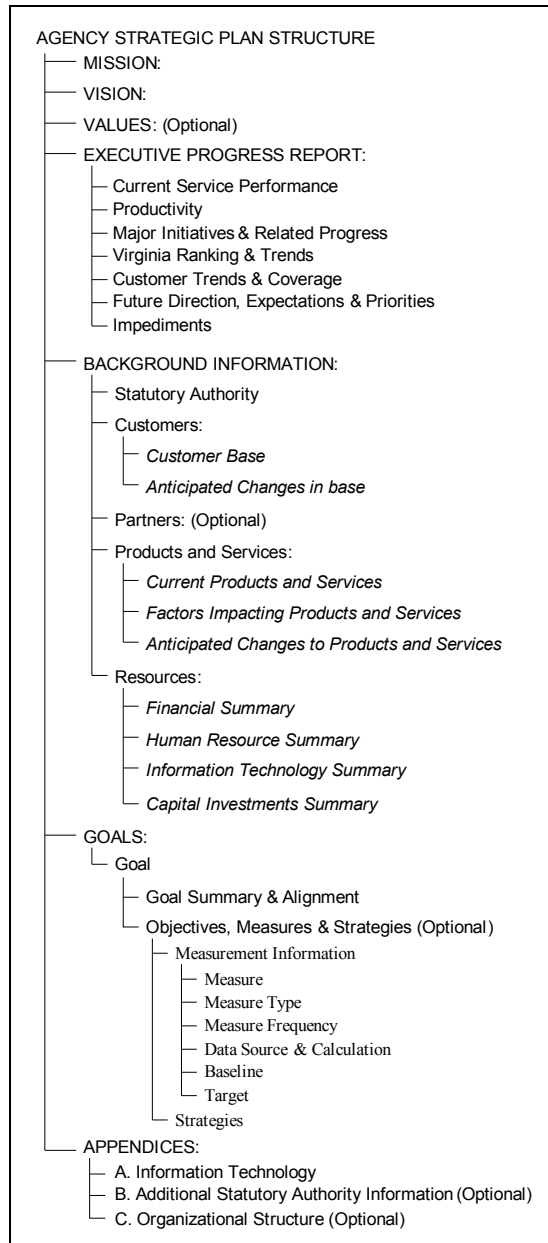
Principle objectives of these plans are:

- To provide agencies with a tool to assist them in self-management
- To give decision makers uniform and dependable data for budgeting and accountability
- To link state resources to results
- To eliminate current fragmented processes of strategic planning, budget development, workforce planning, capital planning, and technology planning

Process Design



Agency Strategic Plan Content



Process Design – Strategic Plan

Once the agency head and the executive team establish the strategic direction, each service area within the agency starts the process of developing a service area plan. The service area plan is a tool to assist directors, managers, and supervisors in planning and resources allocation.

While an agency's strategic plan documents its overall strategic direction, giving general guidance, the service area plan is more specific. It covers strategic issues as well as mandated and operational issues.

Process Design – Service Area Plan

The service area plan consists of objectives that describe the activities (strategic or mandated) in which the service will be engaged. The objectives are accompanied by the following:

- Information about how the objective aligns with the strategic plan or mandates
- Measures to allow management to monitor progress
- Strategies to be implemented to achieve the objective
- Financial resources to be invested

The Objectives and Measures section of the service area plan will document the objectives the service area wishes to achieve, the alignment of the objective to a mandate or to the strategic direction of the organization, the measures that will be used to ensure the supporting strategies are having the desired effect and the ultimate level of success achieved.

Every Service Area will have a Service Area Plan. Every Service Area Plan will have at least one Objective. Every Objective will have at least one Performance Measure.

Gradual Initial Submissions

DPB will train agency personnel in a “two step” process and assist agencies by reviewing base budgets before moving on to the next area, plus a review meeting. Assignments will be given after each session, to be completed prior to the next meeting.

Chapters:

- (i) Service Area Structure and Base Budget Development
- (ii) Agency Strategic Plans and Performance Measures
- (iii) Follow up to discuss problems, issues, examples

Agencies will have several weeks to prepare and deliver each section, with assistance from your DPB budget analyst as needed throughout the development process.

Training Calendar / Next Steps

- April 5 - 11: Briefings were conducted for cabinet officers and for agency heads
- April 25 – May 23: In-depth training for key agency personnel and DPB budget analysts (8 hours in total length)
- May forward: Ongoing support to agencies from DPB
- May 12 – Briefing for Council on Virginia's Future
- July 15: First submission of strategic plan – for this submission ONLY, financials contained in summary tables do not need to reconcile to a budget submission

Calendar For Agency Strategic Plan Submissions

- ◆ September/October: Technical updates to align plans with budget submissions
- ◆ January: Technical updates to align plans with the introduced budget
- ◆ May: Technical updates to align plans with Appropriation Act
- ◆ May forward: Monitoring, reporting, and coordinating with efforts of Council for Virginia's Future

Service Area Structure

Current State

- Virginia's planning and budgeting systems utilize two taxonomies.
- Programs and subprograms are used in the budget and accounting systems.
- Activities are used for strategic planning and Virginia Results for performance measurement.
- Programs/subprograms and activities are not logically linked.
- It is not easy to connect budgets to specific agency performance management activities, measures, and targets.

Linking Plans & Budgets through the Service Area Structure

- DPB has worked with the agencies to develop a new budget structure based around service areas.
- The service area structure links budgeting, accounting, strategic planning, and performance measurement.
- The ‘service area’ is the common thread that runs through planning and budgeting activities, linking them through a common taxonomy.
- A service area generally equates to a subprogram, i.e. an area of expenditure that supports one or more products or services.
- A service area can cut across more than one organizational unit.

Service Area Structure

Current Structures

Programs/ Subprograms =	Budgeting Accounting System
Activities =	Strategic Planning Virginia Results

New Structure

Service Areas =	Budgeting Accounting System Strategic Planning Performance Measurement
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Hybrid of State Program and Activities Structures

Program Structure (1978 – 2005)

Program - A distinct organization of resources directed toward a specific objective of either:

- Creating, improving, or maintaining a condition affecting the public;
- Preserving, developing, or conserving a public resource;
- Preventing, containing or eliminating a public problem; or
- Supporting or controlling other programs.
- Each program should lend itself to at least partial quantification and should bring together all costs associated with its execution.

Subprogram - The broadest subdivision, as nearly as practicable, of a program. Resources provided for subprograms may be interchanged for maximum accomplishment of program objectives.

Hybrid of State Program and Activities Structures (con't)

Activity Structure (1995 – 2005)

- Generally a cross-functional process that produces the agency's primary products, services, or supports production.
- Clearly communicates the agency's business;
- Leads to outcomes that are expected;
- Helps identify over-reaching themes;

Similarities:

- Focus on activities;
- Supported by goals, objectives, and measures;

Differences:

- Program structure is generic to fit all similar activities;
- Program structure titles are not descriptive of agency efforts; and
- Experience shows the program structure doesn't always get to services, outcomes, and measures.

Advantages of Service Area Taxonomy

- One taxonomy instead of two.
- Better describes what the agency does.

Example: Service Area Structure for Department of Human Resource Management

Current Structure

Future Structure

Current Structure

Current Program/Subprogram	Recommended Service Structure (Proposed Services="*")	Current Activity
Administration and Support Services	Administration and Support Services*	
General Management and Direction (71901)	General Management and Direction	<div>Administrative Services (129009)</div> <div>Information Technology (129008)</div>
Personnel Management Services	Personnel Management Services	
	State Employee Services*	Employee Services (129006)
Compensation and Classification Services (70401)	Agency Human Resource Services*	Agency Human Resource Services (129001)
Equal Opportunity and Employee Services (70403)	Equal Employment Services*	Equal Employment Services (129005)
Medical/Hospitalization Benefits - State (70406)	Health Benefits Services*	Health Benefits Services (129003)
State Management Development and Training (70409)	Personnel Development Services*	Personnel Development Services (129002)
	State Employee Workers' Compensation Services*	Workers' Compensation (129004)
Investment, Trust, And Insurance Services		
Insurance Services (72502)		

Homework Assignment #1

- Review and finalize your Service Area Structure
 - ✓ Your budget analyst will send you a copy of your agency's draft service area taxonomy this week.
 - ✓ Must be completed before you can begin homework assignment number 2.
 - ✓ Do not add, delete, or modify programs or service areas without consulting your DPB analyst first.

Base Budget Training

Service Areas and the Budget Targets

- Service area is the link between strategic planning and the budget
- Funding will be allocated at the service area level in the budget bill.
- The budget document will depict Governor's recommendations by service area.

Service Area Targets

- The first step in 2006-2008 budget development is formulating service area targets.
- The sum of the service area targets will equal the agency's legislative appropriation for FY 2006 (2005 Appropriation Act).
- These service area targets will be used for the financial summaries in the service area plans and the August 1 base budget submission.

August 1 Budget Submission

- First budget submission for 2006-2008 will be on August 1.
- It will consist of two components – base budget and technical adjustments.
- Both will array dollars by program and service area.
- Instructions for both will go out in June.

First Component: Base Budget

- Data only submission – no narrative
- This data submission arrays dollars by program/service area and by object of expenditure (subobject for personal services and major object for nonpersonal services).
- Dollars and positions must equal the FY 2006 amounts in the 2005 Appropriation Act at the agency and program levels.
- Agencies will use WebBEARS to prepare and transmit the data.

Second Component: Technical Adjustments

- Best way to define technical adjustments is to give examples of what is and is not.
- Technical adjustments include proposals to shift funds or positions between programs, annualize partial-year funding, remove one-time funding, or account for additional nongeneral fund revenue that has been approved or will be approved administratively, such as a federal grant that will continue for several years.
- Also include distribution of FY 2006 funds in central appropriations such as health insurance premium increases and FY 2005 and FY 2006 salary adjustments.
- DPB will identify and communicate some mandatory technical adjustments for agencies to prepare.
- Cost increases or decreases related to rate changes or inflation or changes in workload or caseload must be submitted later as a “decision package.”
- Requests that require policy decisions must be submitted as a decision package.

Second Component: Technical Adjustments (con't)

- The submission will consist of data submission and narrative.
- The data submission arrays dollars by program/service area and by object of expenditure (subobject for personal services and major object for nonpersonal services).
- Agencies will use WebBEARS to prepare and transmit the data.
- Narrative will describe the request and provide the reason for it.

Other Key 2006-2008 Budget Dates

- Six-year revenue updates will be due in August
- Decision packages will be due in mid-September.

Homework Assignment #2

- Crosswalk the FY 2006 general and nongeneral fund appropriation in the new appropriation act to the Service Area Structure for your agency.
- Must have completed homework assignment #1 before you can begin.
- Sum of the service area targets must equal agency appropriation.
- Due by next training session.
- Work with DPB analyst to complete

DPB Website

- New page devoted to strategic planning
- Address is <http://dpb.virginia.gov/SP/index.htm>.
- This week will post user handbook, instructions, and copy of training materials.

